

 INTOSAI

20th Anniversary



# International Journal of Government Auditing



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# International Journal of Government Auditing

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Given the *Journal's* use as a teaching tool, articles most likely to be accepted are those which deal with pragmatic aspects of public sector auditing. These include case studies, ideas on new audit methodologies or details on audit training programs. Articles that deal primarily with theory would not be appropriate.

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# Editorial

One of the most striking features of the INTOSAI Governing Board when it met last May in Vienna was its size and composition. The 17-member Board, the largest and most representative in INTOSAI's history, is the first Board to meet under INTOSAI's newly revised Statutes. In keeping with the spirit and the letter of the new Statutes, each of INTOSAI's seven regional working groups and the major systems of auditing are now represented on the Board. In addition, the chairs of INTOSAI's eight committees and the hosts of the 1995 and 1998 Congresses were present, either as members or observers, to discuss a variety of professional and business agenda items. In all, 65 delegates from 22 countries and the United Nations participated in this 38th meeting of the Board.

The new Board symbolizes an organization that is in some ways very different than it was even 10 years ago. INTOSAI's membership is now 164 countries, and its eight working committees actively address such issues as public debt, the environment and technology. Over 50 member states serve on these committees, and many more countries participate in other INTOSAI programs at the international and regional levels. One clear indication of the success of this widespread participation and involvement was the unanimous adoption last October of international standards for auditing and internal controls. This was no small accomplishment for an international organization that represents supreme audit institutions with widely varying audit mandates and approaches, not to mention various cultures and languages.

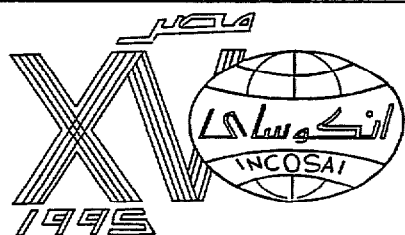
Looking beyond the composition and size of the Board, the agenda items discussed at the May meeting reflect substantive changes in INTOSAI as well. The chairs of the three new groups formed in 1992—on environment, program evaluation and privatization—presented their committees' terms of reference, and the Board approved all three. In that connection, the General Secretariat reported on the overwhelming response to its survey of SAIs interested in joining these new groups, and it is clear that these newest groups have tremendous support throughout the world for their work. They are well underway in their work, and INTOSAI members can look forward to seeing the results of their work at the XV INCOSAI in 1995.

A highlight of the Board meeting was the report by Egypt on their plans for the XV INCOSAI to be held in Cairo in 1995. Egypt presented a proposal for the Congress which included rules of procedure outlining the themes and format for the Congress. INTOSAI members will be pleased to know that the Board approved these proposals, and that Egypt's proposals build on INTOSAI's past successes.

Following up on recommendations made at the XIV INCOSAI, Theme I in 1995 will address issues related to environmental auditing, and will be chaired by the Netherlands, which also serves as chair of INTOSAI's environmental auditing committee. Recognizing the importance of all of INTOSAI's committees, and the need to involve all SAIs in their work, Theme II will focus on the work of INTOSAI's committees on accounting, public debt, EDP, internal control, auditing and program evaluation. And finally, the Board approved Egypt's proposal to organize a symposium on the topic of privatization immediately following the XV INCOSAI; this event will be chaired by the head of INTOSAI's privatization committee, the United Kingdom.

Without doubt, Egypt's proposal has helped guarantee a healthy continuity from congress to congress, and the further integration of INTOSAI's committees into the work of the organization and the congresses. The concept of "life between congresses" continues to be strengthened by Egypt's proposal and promises to flourish in the years leading up to the 1995 congress.

The host of the 38th meeting of the Board, the Austrian Court of Audit in its role as General Secretariat of INTOSAI, is to be applauded for its tremendous support and leadership. The Board meeting itself was well planned and managed, and those same qualities are also abundantly evident in the General Secretariat's day-to-day management of INTOSAI programs and activities. This leadership, coupled with the active participation of so many SAIs, will contribute to INTOSAI's further progress in the years ahead. ■



Plans for the XV INCOSAI have begun under the leadership of the Central Auditing Organization of Egypt, host of the 1995 event. For more information about the congress, see the editorial on this page and Inside INTOSAI on page 18, and future issues of the Journal for continued coverage of congress plans.

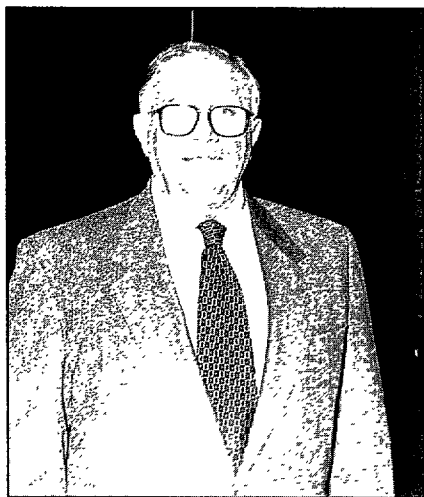
# News in Brief

## Argentina

### Legislation Creates New SAI, New President Elected

A major change in the history of government auditing in Argentina occurred on October 29, 1992 with the passage of the Financial Administration and Control Systems Law which abolished the traditional Court of Accounts and created in its place a modern National Audit Office.

In addition to creating the new supreme audit institution (SAI), the law addressed other aspects of government financial management such as budget, accounting, internal control and internal auditing.



Dr. Masnatti

The new SAI reports to the national Congress and is independent from government. It is administered by a college of seven auditors general, who are appointed for eight-year terms. The President of the National Audit Office represents the college and carries out its decisions. The new office has a broad

scope of audit responsibilities that includes financial, compliance and performance audits as well as other special examinations initiated on its own or by a congressional request.

The President of the new National Audit Office is Dr. Hector Masnatti, a constitutional law expert who had served as Minister of the Supreme Court and Ambassador to Italy prior to assuming his responsibilities as President.

For additional information, contact the National Audit Office of Argentina, Hipolito Yrigoyen, 236—C.P. 1086, Buenos Aires, Argentina.

## Austria

### Court of Audit Hosts Seminar "Austro-Arab Week"

Following a long-standing tradition, the Arab Organization of Supreme Audit Institutions (ARABOSAI) and the Austrian Court of Audit joined forces to deliver a joint seminar on the "Audit of Power-generating Companies". A total of 17 participants from 10 ARABOSAI

member countries attended the meeting, which was hosted by the Austrian Court of Audit in Vienna from November 9-13, 1992.

During the seminar, participants were introduced to the overall operations of the Austrian SAI and to its work related to the audit of power-generating enterprises. The program included a general overview of the subject, and discussions of different audit approaches and methodologies, including the use of a specific questionnaire. In addition, case studies were presented on budgetary accounting and strategic planning in a power plant, as well as other related topics.

Lecturers included senior auditors from the host SAI as well as industry representatives. Sessions included lectures, multimedia presentations, question and answer periods as well as site visits to various power plants in and around Vienna. In all, the program provided ample opportunities for exchange of information and experiences and the further development of good relations between the participating institutions.



Participants at the Austro-Arab week seminar in Vienna.

## Cyprus

### Annual Report Issued

The Auditor General of Cyprus has issued his 1991 Annual Report, which includes audits of the public accounts of the Republic of Cyprus as well as the results of a number of performance audits completed by the office. One chapter is devoted to a performance audit of bonded warehouses and the related issues of trade, excise taxes and import duties. The audit was based on interviews, questionnaires, spot checks and analysis of records, and contains specific suggestions for how to improve operations.

For example, the report suggests the need to update legislation to enact regulations dealing with bonded warehouses, and the need to hasten the computerization of warehouse systems as a way of meeting the expanding demands of trade.

In addition to the annual report, the Auditor General continued in 1991 to brief ministers quarterly on the major points raised by audits of their agencies. Copies of these reports are submitted to the President of the Republic and to the House of Representatives. In this way, both the executive and legislative branches of government are briefed promptly on the most important matters raised during the audits of accounts of government, local authorities and public corporations.

For information, contact the Office of the Auditor General, Nicosia, Cyprus.

## Fiji

### 1991 Annual Report Issued

Among the major recommendations made in this report is a call for an amendment to the Audit Act which would give the Office of the Auditor General more independence and broaden the scope of audit.

Noting that it is no longer sufficient to audit only the accounts of government, the report suggests that the Act be amended to include value for money auditing. In addition, it calls for measures related to resources that will help

guarantee the independence of the office from executive control.

The report contains a useful and informative section on losses of public monies and stores due to theft, fraud or negligence. This section includes an easy to read chart that details a description of the loss and relevant government department, the amount of money involved and the amount recovered (if any), and action taken by the government.

For additional information, contact the Office of the Auditor General, P.O. Box 2214, Suva, Fiji.

## Hong Kong

### Results of VFM Audits Reported

In accordance with the "Revised Codicil to the Agreement on the Scope of Government Audit in Hong Kong: Value for Money Audits", the Audit Office has issued its report on the results of value for money audits conducted between October 1992 and February 1993.

The report was presented to the President of the Legislative Council, and reports on work done at such departments as the post office, inland revenue, the police force and the lotteries fund.

Each report contains background information on the program under review, a summary of the audit work done (including methods used), audit recommendations, and responses from the auditees.

In addition, an appendix describes the guidelines used in conducting these value for money audits.

For additional information, contact the Office of the Auditor General, 26th floor Immigration Tower, 7 Gloucester Road, Hong Kong.

## European Communities

### New President for Court of Auditors

Mr. Andre J. Middelhoek of the Netherlands was elected President of the European Communities Court of

Auditors (ECCA) on January 12, 1993, succeeding Mr. Aldo Angioi of Italy who had held that post since 1989.

Mr. Middelhoek earned a Ph.D in economics at the University of Amsterdam, and began his public service career in 1958 at the Central Planning Office of the government of the Netherlands, where he served as Deputy Director from 1966-69. During this period he was also a lecturer at The Hague's International Institute for Social Studies. Other positions held during his distinguished career include service as Director General of the budget in the Ministry of Finance (1969-77), and Vice-president of the Economic Policy Committee of the EC by Council decision of February 18, 1974.



Mr. Middelhoek

Mr. Middelhoek was appointed a member of the ECCA when that body was created in 1977, and has been successively responsible for audit working methods; production and editing of the Court's reports; audits of general accounts, loans and borrowings; and audits of such areas as energy, research and investment, industry and structural policies.

His mandate as ECCA President is for three years, and will end on December 20, 1995. As President, Mr. Middelhoek is responsible for ensuring the proper internal operations of the Court and its departments, and for the

sound management of its activities. In addition, he represents the Court in its external relations. Mr. Middelhoek is assisted by his Head of Cabinet, Mr. Chris Kok, and the Court's Director of External Relations, Mr. Norbert Schmidt-Gerritzen.

### **Progress on Common Auditing Guidelines**

As reported in the April 1993 issue of this Journal, the ECCA is part of a four-nation ad hoc group which is developing common auditing guidelines for the ECCA and the national audit offices of the EC member states to use in examining EC expenditures. In addition to the ECCA, the group consists of the SAIs of Denmark, Italy, the Netherlands and Spain. Working together as a team, representatives from these five audit bodies have produced guidelines which will be discussed at the next meeting of the SAI Presidents of the twelve EC member states and the ECCA to be held in Lisbon from September 28-30, 1993.

For additional information about this joint project, contact the ECCA, External Relations Department, 12 rue Alcide de Gasperi, L-1615, Luxembourg.

## **India**

### **SAI Elected to UN Board of Auditors**

India was elected by the General Assembly of the United Nations to serve a three-year term as a member of the UN Board of Auditors. Sitting on the Board for the first time, India replaces the Philippines and joins the SAIs of Ghana and the United Kingdom on the three-nation Board.

### **Activity Report, 1991-92**

The Indian Comptroller and Auditor General has issued his eighth annual Activity Report which provides detailed information on his office, the Indian Audit and Accounts Department. The scope of this year's report has been

enlarged to include new areas of activity and effort, such as a section addressing improvements in systems and procedures as a result of audit observations.

Among the topics of the twenty chapters in this report, illustrated with charts and photographs, are detailed descriptions of the organization and function of this supreme audit institution, and information related to personnel, training and automation of the office.

For more information on this report, contact the Comptroller and Auditor General of India, 10 Bahadur Shah Zafar Marg, New Delhi, 110002, India.

## **Romania**

### **New SAI Head Appointed**

Dr. Ioan Bogdan has been appointed President of the Court of Accounts of Romania. An accountant with a Ph.D. in economics, Dr. Bogdan has a long and distinguished career in business, banking and government. Among his previous posts were Deputy Director of the Investment Bank, manager of the Sibiu branch of the National Bank, and President of the Budget, Finance and Banking Committee of the Romanian Parliament. Following the revolution in 1989, Dr. Bogdan served as the first elected President of Sibiu.



Dr. Bogdan

In addition, he worked as a university lecturer for twenty-two years in the fields of accountancy, finance, statistics and business administration. He has published over 250 works.

In becoming President of the Romanian SAI, Dr. Bogdan joined the INTO-SAI Governing Board, and recently attended its 38th meeting held in Vienna.

For more information, contact the Court of Accounts, 2 Calea 13 Septembrie Ave, Casa Polorului, Bucarest, Romania.

## **United States of America**

### **14th International Fellowship Program**

The fourteenth class of the International Auditor Fellowship Program sponsored by the United States General Accounting Office (GAO) for auditors from GAO's counterpart supreme audit institutions began on June 16, 1993. This year's class has Fellows from: Albania, Sabri Ahment Koteci; Argentina, Fernando O. Losada; Brazil, Eliane M. B. De Oliveira; Burundi, Sicaire Bukuru; Cameroon, Tanyi Mbianyor Clarkson Oben; Ghana, Francis Kwasi Martey; Guyana, Mohanlall; Hungary, Zsuzsanna Egri; Indonesia, Usman Damanik; Panama, Temistocles Rosas Rodriguez; Poland, Mariusz Galuskiowski; Romania, Ion-Horia Neamtu; and, Tunisia, Habib Zenned.

During the next four months the Fellows will participate in a variety of activities to familiarize them with performance auditing methodology and develop skills in conducting performance audits and in using new technology to complete this work.

Fellows participate in classroom training; explore the differences and similarities among their own SAIs; examine work-in-progress at GAO audit sites in Washington, DC, and visit GAO's regional offices. The classroom training programs are adapted from GAO



and IDI training programs, and GAO staff members serve as instructors. Attention is also given to assisting Fellows in acquiring the skills necessary to deliver presentations, develop and conduct training, and write policy. As a final product, Fellows develop a plan for what they expect to accomplish when they return to their SAI.

For additional information on the program, contact the U.S. General Accounting Office, Room 7806, Washington, D.C. USA 20548.

## **ASOSAI**

### **1993 Journal Published**

The Asian Organization of Supreme Audit Institutions (ASOSAI) has published its 1993 Asian Journal of Government Auditing. The 43-page Journal includes information on ASOSAI, INTOSAI, the XIV INCOSAI held in Washington in October 1992, and an audit profile on the SAI of Korea. In addition, there are articles on training, revenue auditing and other practical topics of interest to government auditors.

Published annually in English on behalf of ASOSAI, the Journal is the official organ of ASOSAI and serves as a forum for sharing information and experiences among member countries.

For additional information, contact the editorial office in care of the Comptroller and Auditor General of India, 10 Bahadur Shah Zafar Marg, New Delhi 110002, India.

## **OLACEFS**

### **Quarterly Journal Issued**

"Revista OLACEFS", the quarterly journal of the Organization of Latin American and Caribbean Supreme Audit Institutions, has been issued and contains four technical articles on subjects ranging from audit of political party financing to audit of government subsi-

dies. In addition, the 48-page issue reports on the many activities of OLACEFS member SAIs such as regional meetings, conferences and training programs, and publications of interest to members. A special section provides information on the X CLADEFS scheduled in August in Costa Rica. Also included is a detailed description of the criteria for articles accepted for publication in the Journal.

For more information, contact the editorial offices of Revista OLACEFS, Morelos 82, Esq. Abraham Gonzalez Col. Juarez, Delegacion Cuauhtemoc, Codigo Postal 06600, Mexico D.F., Mexico.

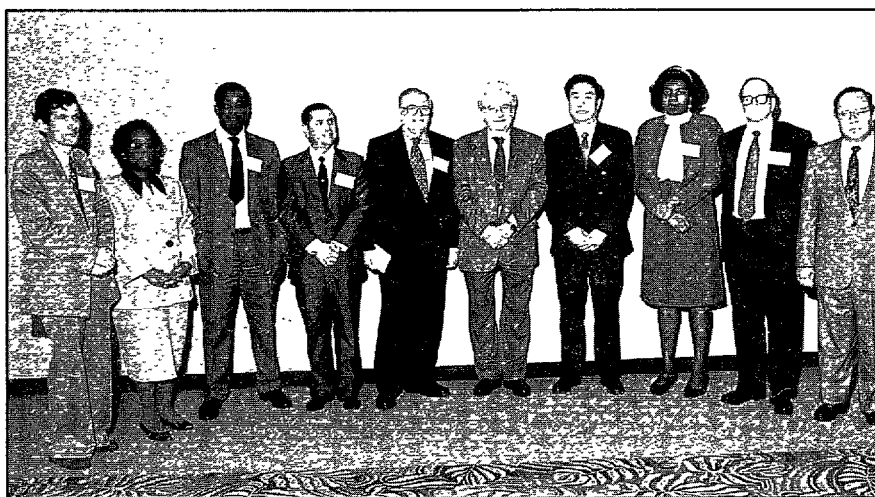
## **International Consortium on Governmental Financial Management**

### **7th Annual Conference on New Developments**

A total of 172 participants from 32 countries attended the 7th annual Conference on New Developments in Governmental Financial Management held in Miami, Florida from April 19-21,

1993. The conference was jointly sponsored by the International Consortium on Governmental Financial Management, the InterAmerican Accounting Association, the Iberian Public Budgeting Association, Florida International University and the US Agency for International Development. In addition to participants from the Caribbean and Latin America, the conference attracted attendees from many countries in Asia, Europe and Africa. The conference was conducted in English and Spanish.

The principal topics discussed at the conference came under the overall theme, Managerial Economics as Applied to Governmental Financial Management, and included presentations on various national approaches to this issue with emphasis on performance measures. The issue of ethics was also discussed. The next international conference organized by the Consortium is scheduled for October 1993 in Washington, D.C. on the subject of "Effective Financial Management in Government". For more information, contact the International Consortium on Governmental Financial Management, P.O. Box 8665, Silver Spring, Maryland 20907 USA. ■



Representatives from many supreme audit institutions attended the Consortium's 7th annual conference.

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# Second EUROSAI Congress Convened in Stockholm

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By Leif Antell, National Audit Bureau of Sweden

Privatization and achieving results for the audit office were the key themes as thirty-seven of the European supreme audit institutions (SAIs) gathered in Stockholm June 14-17, 1993 for the second EUROSAI congress. Swedish Auditor General Ingemar Mundebo hosted the congress which included new member SAIs from the Republic of Russia, Georgia, Estonia and Lithuania; in fact, over one-third of the participating countries came from eastern Europe. The recently divided Czechoslovakia has become two new countries, the Czech Republic and the Slovak Republic, both of which were represented. In total, EUROSAI has grown from the initial thirty-one founding members in 1991 to its current membership of thirty-seven countries.

The total list of member countries participating in this event included Albania, Austria, Belarus, Belgium, Cyprus, Czech Republic, Denmark, European Communities Court of Auditors, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, Ireland, Italy, Lithuania, Luxembourg, Malta, Monaco, Netherlands, Norway, Poland, Portugal, Romania, Russia, San Marino, Slovak Republic, Spain, Sweden, Switzerland, Turkey and the United Kingdom.



The founding President of EUROSAI, Mr. Guiseppe Carbone of Italy, addresses the congress at its opening ceremony. Also participating in the program were Ms. Ingegerd Troedson, Speaker of the Swedish Parliament, and Mr. Ingemar Mundebo, Auditor General of Sweden and congress host.

These countries ranged from the old democracies of Europe to those countries in Central and Eastern Europe whose citizens have now regained democracy and are developing democratic institutions. It was clear, however, that despite

often dramatically different working conditions and problems among countries, the public audit function has an extremely important role to play regarding accountability and transparency in the use of government funds. The common ground for the congress can be expressed in these basic concepts: audit shall be performed independently; the auditing body must have skilled personnel; and, the audit must be constructive, not merely retrospective.

The two major recommendations from the two key congress themes were that:

- SAIs should become involved in the privatization process as soon as constitutionally possible, consistent with maintaining their independence.
- Independence should be stressed in the context of selecting audit areas and in terms of achieving results; and, good relations and dialogue with parliament and auditees, as well as staff motivation, are essential for good results.

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*Our success depends on the active participation of all, and on our will to achieve results.*

*—Ingemar Mundebo*

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## Statutes Revised, New Board Members Elected

Among the many important accomplishments achieved during the four-day conference was the revision of EUROSAI Statutes. In an effort to further increase cooperation and coordination with the parent organization INTOSAI, the congress amended the Statutes to allow EUROSAI members who serve on the INTOSAI Governing Board to attend the meetings of the EUROSAI Governing Board as observers.

The Congress also approved an amendment to the statutes extending the term of two current members for an additional three years, and giving the congress the authority to elect two new members for six-year terms. In another move designed to increase the continuity of the Board during EUROSAI's early years, outgoing Board members France and the United Kingdom will stay on the Board as observers.



Two new members of the Governing Board, Netherlands and Poland, were elected for the period 1993-96, joining those SAIs already serving on the Board: Sweden (president), Czech Republic (vice president) and Spain (Secretary General), Italy (reelected), and Hungary (reelected). The new Board met immediately after the congress and will meet again in December 1993.

The congress also elected auditors to serve a three-year term. Turkey was reelected and Portugal was elected to audit the accounts of EUROSAI and to report annually to the Board through 1996. Prague was appointed the venue of the 1996 Congress and the SAI of Czech Republic was therefore elected vice president of the new Governing Board.

In his report to the Congress, Secretary General Carretero of Spain emphasized that the organization had in the last three years left the "take-off stage" and had succeeded in reaching "cruising speed". He emphasized that EUROSAI's expansion as a result of the creation of new supreme audit institutions calls for cooperation, interchange and understanding. He went on to note that the main problem had been the budget for the rapidly growing organization; new members and more activities require an increase in the budget.

*...the creation of new SAIs in Europe calls for more cooperation, interchange and understanding.*

*— Secretary General Carretero*

## Progress Since 1990

In the three years since its inaugural congress in Madrid, EUROSAI has made substantial progress in a number of areas. As early as the summer of 1991 a special publication was published on the results of the Madrid Congress. The same year also saw the publication of the EUROSAI Statutes in the organization's five official languages (English, French, German, Russian and Spanish). Also in 1991, representatives of EUROSAI attended the 36th meeting of the INTOSAI Governing Board to formally present documentation for official recognition as INTOSAI's seventh regional working group.

EUROSAI has been active in providing training for its members. It joined forces with the INTOSAI Development Initiative (IDI) and the General Secretariat in 1991 to sponsor a seminar in Hungary aimed at newly created SAIs in eastern Europe. The following year, seminars were held in preparation for the Stockholm congress in Prague, where participants discussed the changing functions of the SAI and privatization; in Istanbul, where the topics were achieving results for the audit office, audit priorities, reporting and staff qualifications; and another seminar in Valence, Hungary on auditing the process of privatization.

1992 was also the year of the XIV INCOSAI in Washington, and the first international congress attended by all EUROSAI members since the Inaugural Congress in Madrid.

## Theme Discussions: Privatization

The subject addressed during Theme I was the changing functions of the state and the role of audit with special emphasis on privatization. One key issue discussed was the timing of SAI involvement in privatization. For example, at what stage should an SAI become involved in the audit of a privatization, and how can the SAI maintain its independence while engaging in such audits?

In some countries, SAIs are expected to offer advice to government throughout the entire privatization process. In other countries, SAIs do not begin to examine privatization until after it has taken place. In a number of countries, SAIs may become involved at intermediate stages, for example after the government has made a decision to carry out a sale but before the sale takes place.

The independence of an SAI is not likely to be at risk when it begins its privatization study after the sale has occurred. However, in this case the SAI is unable to influence the way the sale is conducted. Nevertheless, the SAI will still be able to report to government and parliament on good and poor practices learned from the sale; this information can be applied to future sales.



Members of the newly elected Board of Governors of EUROSAI pose for a group photograph.

When an SAI becomes involved before the sale, it has the opportunity to make a contribution to the sale process. In such circumstances the SAIs may wish to make it clear to the seller that any general and technical advice given does not extend to a blanket endorsement of the precise terms of the sale which will be subsequently negotiated by the seller.

SAIs identified a range of obstacles to carrying out effective audits of privatization. Those obstacles most frequently mentioned as being among the most difficult include:

- The adequacy of the legal system, a particular problem in eastern and central European countries.

- The valuation of the business, a process which requires expert knowledge and experience often not available to the SAI.
- The terms of the sale and the adequacy of internal control mechanisms (the Congress noted that the audit of privatization has taken into account the different approaches taken in different member countries. These arise from differences in the economic, social, financial and legal environments and the scale of the privatization.



Members of the delegation from Turkey participate in a theme discussion session.

In making its recommendations, the Congress agreed that:

- It is important for the proper audit of the disposal of state owned assets that SAIs should become involved in the privatization process as soon as constitutionally possible, consistent with maintaining their independence; and,
- Such involvement can extend to offering advice at the planning stage, while ensuring that SAIs do not thereby limit their ability to comment later on the outcome of the privatization.
- Further seminars for experts should be held on auditing the privatization process.
- It would be valuable for SAIs to exchange experiences on audit issues arising out of the increased commercialization of state-owned businesses remaining and on the work of bodies established to regulate the activities of these businesses.

## Theme Discussions: Achieving Results

The second subject discussed by the Congress was that of achieving results for the audit office with special attention to the selection of audit areas of importance, the presentation of the audit to the public, and the quality of staff.

It was noted that while there are significant differences in the criteria used by different SAIs for selecting areas in which to undertake performance audit, there is more convergence in the choice of areas for regularity audit work. Despite these variations among SAI, this choice is always governed by the objective of assuring sound financial management and improving performance in the public sector.

Delegates further agreed that relations and dialogue with parliament and auditees is important as a method of obtaining acceptance of the SAI's observations and recommendations. Many members expressed a high level of interest in learning more about the varying practices of different EUROSAI members.

In the area of SAI staff, it was noted that staff development is an important way to equip the SAI for its evolving role and to enhance the motivation of staff. The increasing importance of performance audit, the need to adapt to changes, and the associated diversification of audit tasks means that the SAI's need for high quality staff is increasing. In the quest for achievement of results, the motivation of staff is an important tool.

The Congress concluded discussion on this theme by agreeing that:

- Audit staff should be involved in the procedures for selection of audit areas of importance.
- Transparency in SAIs' choice of criteria would be beneficial for the external credibility of SAIs and for the motivation of their staff.

More specifically, the Congress decided that:

- EUROSAI should examine the experience of different SAIs with a view to compiling the elements of best practices for dialogue with the auditee, including safeguards for the independence of SAIs.
- EUROSAI should gather information from its members with a view to establishing the elements of best practices among audit managers for enhancing the motivation of their staff and thus the quality of the audit work.

## Conclusion

It was clear at the conclusion of the Congress that yet another step forward has been taken toward the goal of promoting cooperation among European SAIs. The Speaker of the Swedish Parliament, Mrs. Ingegerd Troedsson, captured this achievement in her opening address at the Congress: "That prominent representatives of the countries of Europe can meet here, in this way, to discuss issues of common interest is proof that we have a European identity. The identity is made stronger by many meetings between individuals and organizations at different levels. In this respect EUROSAI has a significance which is far greater than its purely professional goals."

Mr. Carbone, outgoing President of EUROSAI and President of the Court of Accounts of Italy, added to this sentiment when he pointed out the impressive list of activities which have taken place since 1990, thereby indicating that EUROSAI is achieving demonstrable results in its work. He described these successes by saying, "The tree planted in Madrid has grown, gotten branches, and has borne good fruits".

For additional information on the program, contact: Swedish National Audit Bureau, Box 34105, S-100 26 Stockholm, Sweden. ■

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# The Audit of Secret Expenditures

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By Egbert Kaltenbach, Counsellor-Member of the Federal Court of Audit, Federal Republic of Germany

## Tradition of Exempting Certain Expenditures from Audit

The old conflict between government auditors who wish to know in detail how efficiently and for what purpose agencies have used public funds and government agencies that are eager to exempt certain expenditures from audit is ubiquitous. This concerns not only military secrets or secret service operations but also commercial secrets of public enterprises and confidential information on how sovereigns, heads of state, and ministers have spent discretionary funds. Nearly always the bodies concerned claim that it is in the public interest not to account for certain expenditures. Sometimes extraordinary payments are kept secret from the auditors' scrutiny on the grounds that safety and security require this.

## Exemptions Under the Monarchy

King Frederick the Great of Prussia is an example of this conflict. He gave much attention to ensuring public accountability, but he changed his mind about the need to audit the spending of funds directly at his disposal. Thus he incurred considerable expenditures exempt from accountability. This included spending on the Sanssouci Palace in Potsdam. In 1753, the king gave orders for the construction bills to be burned "for no further use is to be made of such bills, because I do not want anyone to learn how much I have spent on the works on Potsdam." It is interesting to note, however, that the bills have been preserved despite the order.

The fact that certain expenditures should be exempt from audit was taken for granted not only under absolute monarchy but also under constitutional monarchy. The Prussian Superior Chamber of Accounts Act of 1872, which in many respects inspired later audit legislation, upheld this tradition by precluding any audit of secret funds.

## Exemptions After Introduction of Democracy

This practice continued even after democracy was introduced in Germany. Under the Reich Budget Code of 1922, certain appropriated funds were not subject to examination by the Reich Court of Audit. Nevertheless, this was improvement over the legal situation that prevailed under the monarchy. Now it was Parliament, and no longer the government, that had the power to decide which expenditures were to be exempt from audit.

During the Weimar Republic, this provision was used to exempt certain appropriations granted to the Chancellor and the Defence and Foreign Ministries. For some other expenditures, audit access was restricted to the President of the Reich Court of Audit. But the Reich Defense Force managed to spend money on secret defense projects without parliamentary authorization. By diverting funds appropriated for other purposes, the military generated more than 350 million reichsmarks from 1925 to 1930.

*This money was used to secretly rearm the German armed forces in excess of the limits imposed by the Versailles Treaty. This example illustrates the dangers of withholding information on the use of public funds from the audit body and the legislature.*

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## Exemptions Under the Nazi Regime

Once Hitler came to power, external audit was curtailed even further. Funds for military purposes were appropriated in an aggregate amount, and the allocation of these funds was left to the discretion of the Defense Minister. The Court of Audit's role was limited to formal voucher auditing.

## Exemptions in Other Nondemocratic Systems

The practice of excluding major areas of government activity from audit is also found in other nondemocratic systems. For example, an unpublished resolution of the Council of Ministers of the former German Democratic Republic exempted the armed forces, the police, the Interior Ministry, the Ministry of State Security, and the Customs Administration from external audit. The same applied to certain international trade operations involving foreign exchange transactions with western countries. As a result, government activities that swallowed up a large share of public funds were not accounted for. Similar situations existed in the other formerly communist countries.

## Full Audit Coverage and Democracy

Such extensive audit gaps are inconceivable in democracies. However, where the financial management of the secret services is concerned, audit constraints exist even in many democracies. In the Federal Republic of Germany, initially the Federal Court of Audit (FCA) had no access to a few types of very special government spending such as the secret fund of the Foreign Office, the fund for domestic and foreign information, and the discretionary fund of the Federal Chancellor.

The annual accounts of the secret services were audited by the FCA President. If, in the 1969 budgetary law reform, the government had had its way, this situation would have remained unchanged. The draft statute stated that "with regard to their intended use," certain expenditure items would not be accounted for if a clause to that effect was inserted into the relevant budget section. Instead, Parliament amended the Constitution to establish the principle of full FCA audit coverage of all fields of government activity. Under the Budgetary Principles Act, secret matters are subject to audit.

This provision, however, acknowledges the fact that even in a democracy there are certain expenses in whose secrecy the state may have a legitimate interest. For example, in defense policy weapons technology some facts and figures should remain secret in the national interest. In the secret service sector, certain data, including financial information, may put at risk the life and the liberty of operatives and may jeopardize entire operations. As to public enterprises, the release of particular audit findings may place them at a competitive disadvantage and entail severe financial losses. Even in the area of entertainment expenses, there may be a legitimate interest in keeping secret the names of the guests that the head of government or minister has invited for dinner to avoid any undesirable political speculations. Still, these examples are not reason enough not to be answerable for such expenditures.

The German audit system has found the following solution. Though audit is ensured, restrictions apply to the number of auditors involved and to reporting. As a result, classified information is no longer withheld from the auditors, but they are given full access to any information and records that they require. They are obliged, however, to protect the information against unauthorized access. Various procedures have evolved on the basis of statutes or audit experience to ensure this.

### Audits of Secret Defense Expenditures

Such audits are governed by general procedural regulations and rules. FCA auditors have full access to pertinent information. Audit findings are discussed with and adopted by either the Audit College, made up of two or three members, or the large Senate if the results of such audits are to be included in the annual report. Adequate prior security clearance must, of course, be obtained for FCA staff auditing work involving classified information.

Reporting is subject to several constraints. An unclassified or public report may not set out any details of a secret defense equipment project. But not all of an audit report need be strictly confidential to maintain secrecy. In most cases, to omit a very small number of highly sensitive data or to generalize secret information is sufficient.

For example, the development of ammunition or the MLRS-TGW ammunition system was audited jointly by the U.S. General Accounting Office and the FCA. The lengthy audit report can be published, although it contains extremely detailed information on the system's purposes and costs, and compares its effectiveness and costs with those of an alternative. The only data classified and omitted were the quantities proposed for procurement and the range of both ammunition systems.

When such a report is discussed in secret by the appropriate parliamentary committee, all facts and figures are provided in full. The example shows that even in the case of top secret weapon systems, the decisive issues can be dealt with and debated by the responsible committee. As a rule, only very few facts and figures must remain absolutely secret. But effective use of such a reporting format depends on close coordination between the audit office and the audited agencies, since the auditors are not always aware of the effect that the release of some seemingly harmless data may have.

In some cases, data are so closely interrelated that no distinction can be made between information that must be withheld and that which may be released. Thus a whole defense project may be classified as secret. But FCA still reports on such projects with the report being marked as "Restricted," "Confidential," or "Secret." The handling and the dissemination of reports with privacy or security markings is subject to certain constraints. Also, parliamentary committee hearings are open to a few designated officials only.

For example, FCA audited the design phase of the new European fighter aircraft. The classified audit report was discussed at length by the budget committee and the defense committee, which decided on the appropriation of funds for developing the aircraft.

*Thus, to audit and report on classified issues is possible without jeopardizing security interests. A democratic state needs to ensure that Parliament, not the government, has the final say in such issues.*

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### Secret Issues and Annual Audit Reporting

The FCA not only reports on classified issues to individual parliamentary committees but may also include such

information in its annual report. Whereas this report is usually provided to both chambers of Parliament, the Bundestag and the Bundesrat, and to the federal government and is published as a parliamentary paper, the Federal Budget Code provides for a special reporting procedure for audits of classified matters. Audit findings are communicated only to the presidents of both chambers of parliament, the Federal Chancellor, and the Federal Minister of Finance. Such limited reporting safeguards security interests. The President of the Bundestag decides who else will be designated to review the audit findings. FCA has already reported on secret issues several times.

## Auditing the Secret Services

Classifying audit reports does not absolutely ensure nondisclosure of secret information. Despite preventive measures, the number of officials involved in auditing, parliamentary hearings, and/or departmental discussions is too large to fully guarantee that secret information is not released to the public. For example, the audit report on development of the European fighter aircraft that was classified "Restricted" was quoted by various television channels. In professional journals, some paragraphs of the report were even reprinted in full. Top secret material, therefore, requires specific procedures and additional safeguards to prevent disclosure. In Germany, special statutory provisions apply to audit of the secret services.

## Parliamentary Budget Process

The federal budget sets out only the totals of the funds appropriated by Parliament for the secret services. The budget notes that the allocation of the funds is detailed in a special secret budget. Still this does not mean that the secret services may use the funds as they deem fit.

Parliament elects five members from the budget committee to consider and adopt the budgets of the three secret services. Each budget item is reviewed as thoroughly as those of any other departmental budget, the only difference being that only this small, confidential body is involved. The lack of public discussion may induce the confidential committee to review the appropriation requests even more closely and carefully than the full committee would. The confidential committee communicates to the full committee the total funding to be budgeted, and the budget committee includes the amounts in the three different budget subheads to be approved by Parliament without further discussion.

## Conducting the Audits

Auditing of secret matters is subject also to specified regulations and rules. The Federal Budget Code and the FCA Act limit decision-making to three FCA officials: the President, the Audit Director, and the Audit Manager. Departing from the usual audit procedures, this body takes a majority vote, to prevent secret service issues from being submitted to the 16 members of the large Senate.

Other audit staff may be assigned special audit tasks. In practice, auditors examine the secret services in a manner similar to that of any other government agency. They scruti-

nize expenditures; check the grading and the rating of staff, the organizational structure, and the efficiency of procurement; and look into information technology issues. FCA has specialist auditors for this audit field, such as civil engineers, mechanical engineers, telecommunications engineers, and computer experts.

FCA uses the audit criteria of regularity, compliance, and performance in auditing the secret services. There is no valid justification of why a secret service should not seek the best solution when procuring a copying machine or a computer. Still, certain constraints apply to the audit of secret service operations. Thus the auditor has to accept as facts decisions related to the purpose and the functions of the secret services. Self-restraint is necessary as far as any policy decisions and objectives are concerned.

## Reporting Requirements

Reporting on the audit of the secret services is also subject to special regulations. FCA reports on audit findings to the Parliament's confidential committee, the supervisory federal ministry responsible, and the Federal Ministry of Finance. Since the FCA members involved also participate in the confidential committee's budget deliberations, they can readily make available their advice and audit experience when the appropriation requests are discussed so that early corrective action can be taken.

FCA reports are discussed by the confidential committee. Individual findings are discussed by the presidents of the secret services, the oversight bodies, and the auditors. The FCA President's participation in the sessions underlines the significance of secret auditing. To enforce the FCA recommendations, the confidential committee members may use parliamentary procedures available for nonclassified observations. For example, they may decide on certain conditions for the audited body to fulfill, require it to report on any corrective actions taken, or withhold any further funds until shortcomings stated have been addressed.

## Depth of Coverage

Although the audit of the secret services is not public, the audit work is as profound as the audit of nonclassified matters.

## Audit by the FCA President *in Persona*

Under the Federal Budget Code, Parliament may provide in the budget that certain very special secret expenditures be subject to audit by the FCA President himself (*in persona*). The audit issue is not submitted to any audit college or the Senate, but the FCA President decides at his own discretion. In practice, for the FCA President to carry out such an examination all on his own is impossible, and so he relies on a few auditors to assist him.

So far, Parliament has used this procedure only in respect of two budget items: the secret and special purpose funds of the Foreign Ministry amounting to DM 5 million, and the discretionary fund of the Federal Chancellor amounting to DM 300,000.

When auditing these two funds, one major criterion is to decide whether the funds have been used for the appropriated purposes. Given the general character of the secret funds, to establish a complete list of the purposes for which the funds may be employed is impossible. Thus, in practice, relevant officials proceed by determining those activities on which the funds must not be spent. The audited agency needs to submit justifications on why the measure taken could not be funded from normal budget appropriations and why it was secret.

Auditing by the FCA President *in persona* works only if minor expenditures are concerned. Due to a busy time schedule and a heavy work load, the FCA President can not fulfill this task if major expenditures are involved. This would lead to *de facto* unaudited areas. Therefore, concern has been raised against extending this procedure to additional areas. When proposals were made to entrust the FCA President with auditing the grants to parliamentary groups or to political parties, FCA successfully opposed these proposals.

The FCA President communicates his findings to the audited agencies, that is the Permanent Secretary of the Foreign Ministry and the Head of the Federal Chancellory. If any findings are of major parliamentary interest, the FCA President may include them in the annual report. Observations on secret issues are to be disclosed not to the whole Parliament, but to only the Presidents of the two chambers, to the Federal Chancellor, and to the Federal Minister of Finance. So far, this situation has not arisen. All shortcomings found have been resolved in discussions with the heads of the Federal Chancellory and the Foreign Ministry.

It may be interesting to note that secret expenditures have tended to decrease. These expenditures incurred by the Foreign Ministry, for example, that totaled DM 8 million some years ago have been reduced to DM 5 million.

*This development is proof that efforts to minimize secret spending and to show expenditures openly in the budget have been successful and can even lead to cost savings.*

### Security Measures at FCA

The audited agencies usually grant FCA auditors free access, although sometimes reluctantly, to secret information and records. A tacitly accepted condition is, of course, that the auditors will use the material with proper discretion and will not release it outside FCA. Some FCA physical security measures are: excluded rooms, a specific secret registry, a tapping-proof discussion room, and the installation of TEM-PEST-proof copying machines and computers. Personal security measures are also of high priority. Any auditor working with classified material is regularly checked in strict accordance with regulations. Security measures are a prerequisite for FCA access to any information.

### Conclusion

The German government auditing system seeks to accommodate the demands of national security interests and full accountability. Today, FCA examination of classified material has become routine for the audited agencies. Those agencies that usually work in close secrecy consider auditing not so much an impediment or a risk to their work, but a help to safeguard public assets and use funds more effectively.

For more information on this topic, contact the author at Bundesrechnungshof, Berliner Str. 51, Postfach 100433, 6000 Frankfurt 1, Germany. ■



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# Audit Profile: Supreme Audit Institution of Barbados

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By E. David Griffith, Auditor General



Mr. Griffith

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*Editor's Note: At the XIV INCOSAI held in October 1992, Barbados was elected to represent CAROSAI on the Governing Board. This Profile introduces one of the newest Governing Board members to JOURNAL readers.*

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## Historical Background

Barbados is the eastern most of the islands of the Caribbean chain which stretches in an arc from the Gulf of Mexico in the north to the mouth of the Orinoco in Venezuela in South America. The island has an area of 430 square kilometers and a population of 260,000. The Government system is based on the Westminster model and the legislature is over 353 years old.

The Audit Office is, however, comparatively young having been established in December 1865 under the Act for Better Auditing and Inspecting of the Public Accounts. The Act relating to auditing and inspection of public accounts was later consolidated and amended into an Audit Office Act through which a pre-audit system was introduced. In April 1957, the pre-audit system gave way to a post-audit system except for the audit of retiring benefits which are still being certified by the Auditor General before the payments are made.

Barbados gained its independence from the United Kingdom on November 30, 1966 and the office and functions of the Auditor General became enshrined in the Constitution. The

Constitution requires that the Auditor General be appointed by the Governor General on the recommendation of the Public Service Commission after consultation with the Prime Minister. The Auditor General however cannot be removed from office except on grounds of inability to function or misbehavior. Special procedures must be followed to bring about the removal. The Auditor General must retire by his 62nd birthday.

## Scope of Audit Authority

The scope of the audit authority is outlined in the Financial Administration and Audit Act which makes the Auditor General responsible for the audit and inspection of all public accounts; the examination of public accounts to ascertain that they are kept on a correct system, and that they are punctually and properly posted, and that checks against irregularity and fraud are adequate and effective. He must also satisfy himself that all standing instructions, acts and other laws of Barbados relating to finance and accounts are strictly observed. To perform these functions he is entitled to have access to all books, records, vouchers, documents or other property of the Government. He can also send for and have custody of any books, accounts, vouchers or papers relating to public accounts and can keep them as long as he may require them. He is also empowered in the discharge of his duties to call upon any officer for any explanation and information he may require. The House of Assembly by resolution can direct that accounts of any statutory body be audited by him. If required by the Minister, the Auditor General must examine accounts of any person or organization that has received monies voted by Parliament or is seeking financial aid from the Government.

## Independence of Audit Office

The independence of the Auditor General is limited to the planning and execution of his audits and reporting thereon. Section 113 of the Constitution states: "In the exercise of his functions under (2) and (3) of Section 113, the Auditor General is not subject to the direction and control of any person or authority." Subsection (2) relates to the auditing and reporting on Government accounts and subsection, (3) relates to the submitting of reports of the Auditor General to the Speaker of the House of Assembly.

In areas of staffing and budget there are some limitations on the SAI. Staff matters such as appointments, promotions, transfers, discipline, etc. must be done by the Public Service

Commission through the Personnel Administration Department. However, the Personnel Administration Department has traditionally been cooperative in staffing matters. The Audit Office has to channel its financial matters through the Ministry of Finance for scrutiny similar to that of any other Government Department. This dependence on other Ministries and Departments can be inhibiting factors on the general efficiency of the Audit Office.

## Organization and Size of Office

The Audit Office has a staff of 68 officers. In addition to the Auditor General, there are a Deputy Auditor General, a Principal Auditor, 7 Senior Auditors, 13 Auditors, 13 Examiners, 28 Clerical Officers, 1 Secretary, 1 Stenographer, 1 Messenger and 2 General Workers.

For administrative purposes the work is allocated to seven groups at the beginning of each audit cycle. Six groups deal with accounts of the Consolidated Fund and the seventh group deals with other accounts called the Special Audits. The Principal Auditor heads the Special Audit Group and a Senior Auditor heads each of the six Consolidated Fund Groups. The work of each Group is allocated to teams supervised by the most senior officer of the team. Each Team Leader is accountable to the Group Leader for the effective and efficient execution of the team's work.

## Types of Work Done

The work done by this SAI is principally financial and compliance audits. There is no clear mandate for extension of work to embrace value for money auditing. However, recommendations have been made to Government for introduction of appropriate legislation to make value for money auditing mandatory. If this recommendation is accepted, staff will require special training for this new area of work. Officers are being encouraged to adopt a systems-based approach to their audit work in place of the traditional type of auditing with which they are familiar.

In addition to the accounts of Government, the Auditor General audits accounts of certain Statutory Boards, Friendly Societies, Trade Unions, Special Funds established by law, and accounts kept by public officers in their official capacity.

## Audit Planning

Barbados has a single Government authority and its fiscal year runs from 1 April to 31 March. Within this framework each Audit Group Leader prepares an operational plan for interim and final audits. Reports on the various audits are required from Group Leaders by 31 August. The Auditor General holds monthly meetings with Group Leaders to receive progress reports, discuss problems and plan departmental strategies. Similarly, weekly meetings are held with Audit Groups on a rotational basis. These meetings are held principally to share audit experiences and assist in staff development. Individual reports may be requested at these meetings.

The purpose of the audit plan and the meetings is to monitor performance on a regular basis to ensure that the Auditor General's report can be prepared for submission to the Speaker of the House of Assembly by 31 December.

## Staff Capabilities and Training Program

The present staff is very experienced and capable of carrying out the audit mandate. Staff turnover is low. A rotation policy is applied to ensure that officers receive varied experiences in audit tasks. Senior officers have benefitted from relevant training overseas. One officer has received the CIPFA diploma and seven have attended a course in public accounts and audit at South Thames College, England. Officers have also attended workshops/seminars sponsored by IDI, CAROSAI and CATI. Budget constraints and lack of donor funding have prevented the office from utilizing opportunities offered for training of staff overseas. However, staff development is encouraged at all levels. At present eight officers are pursuing undergraduate or professional accounting studies, and six are pursuing undergraduate studies in public sector management and in computer science.

Cognizant of the changes which are taking place in Government auditing and to assist in the professional development of staff, training programs have been designed and developed by the Deputy Auditor General in collaboration with the Government Training Division. The first course for senior auditors was held in April when the senior staff attended, on a full time basis for two weeks, the Senior Management Course designed for them. Resource persons were drawn from the private and public sectors. The cross fertilization of ideas provided an enriching experience for participants.

During May, auditors also attended a four-week course designed for them. This course included some of the topics covered in the senior auditors course, but its technical content was more detailed. It is hoped that the production lost during the time of training would be recovered through improved productivity resulting from improved knowledge and confidence.

Other training activities are being planned. Courses for junior audit officers will be held later this year and early next year. The Office manual has recently been reviewed and updated and audit guides are being prepared. A program of continuing education in the form of workshops and seminars is being developed.

We are totally committed to the professional development of our staff and will seek other opportunities to enhance their knowledge and capabilities. The quality of our work depends upon the competence of our staff—for it is through them we can ensure that full financial accountability is maintained in the public sector.

For additional information, contact the Office of the Auditor General, Treasure Office, Bridgetown, Barbados (phone: 809-426-2537; fax: 809-429-6652). ■

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# Reports in Print

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In his *ex officio* capacity as Federal Commissioner for Efficiency in Public Administration, the President of Germany's Federal Court of Audit (FCA) has recently issued guidance on the audit of information technology projects. The audit tool is based on the minimum standards, principles, and recommendations elaborated by the FCA and the state courts of audit. The FCA took the lead responsibility in updating the minimum standards to be followed by government when procuring or using information technology for budgeting and accounting purposes. The audit guide will be regularly updated and made more responsive to user needs in light of the latest EDP developments and the lessons learned from audit work in this field.

The guide outlines standards for planning and coordinating information technology projects, procurement, contracting of hardware and software development, testing and certification of systems, computer operations, oversight responsibilities, quality control procedures, program evaluation, and risk management. The audit guidance is designed as an internal audit tool for all those engaged in EDP auditing.

Copies of the audit guide are available in German at no cost from the **Bundesrechnungshof, Referat Pr/Int, Postfach 10 04 33, D-60004, Frankfurt am Main, Federal Republic of Germany.**

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The SAS software system (a registered trademark of the SAS Institute, Inc., Cary, N.C.) can be used in storing and retrieving information, modifying and programming data, writing reports, analyzing statistics, developing graphics, and handling files.

To assist U.S. General Accounting Office evaluators and analysts to properly plan, prepare, document and use SAS products, GAO developed and published guidelines to ensure conformity with quality control requirements and workpaper documentation standards. The guide is intended for audit and program evaluation applications and complements SAS training and reference manuals; the guide assumes that the reader understands the syntax and style of SAS statements and procedures.

Cautioning that SAS can easily be misapplied, the results misinterpreted, and errors left undetected, the guide stresses the importance of (1) knowing the underlying statistical principles and how to interpret results, (2) understanding the structure and characteristics of the data you will be using, (3) being familiar with SAS procedures and appropriately applying SAS options and modifiers, and (4) being careful to specify the

correct parameters for SAS procedures. Topics in the guide follow the order of assignment tasks and include: planning work that may involve SAS; ensuring the correctness of SAS work; entering data into SAS from raw data formats, SAS data files, other software formats and data bases; transferring SAS data between computers; documenting SAS work; referencing SAS work; and storing SAS workpapers and files.

Single copies of *Planning, Preparing, Documenting, and Referencing SAS Products (IMTEC-11.1.2)*, are available in English at no cost by contacting the **United States General Accounting Office, Office of International Audit Organization Liaison - Room 7806, 441 G Street, N.W., Washington, D.C. 20548, USA.**

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In a new publication entitled *Public Expenditure Management*, Mr. A. Premchand, Assistant Director in the International Monetary Fund's Fiscal Affairs Department, points out that as the number of democratic governments increases, more attention is being directed to the management of public expenditures. He examines public expenditure management from a variety of perspectives and draws on the experiences of industrial and developing countries to cover topics including: institutional aspects of public expenditure management; managing fiscal stress; lending programs; guarantees; management aspects of servicing public debt; procurement; contracting out; and performance measurement and evaluation.

Part of the book examines control frameworks, and in this section Mr. Premchand notes that controls "are processes that enable the specification of objectives, the allocation of resources, and the economic, efficient, and effective utilization of resources while pursuing the objectives of stability." He discusses links between controls and accountability and examines some of the weaknesses or failings in some control systems. His examination includes discussions about weaknesses arising from reactive rather than proactive controls, deterrent oriented process controls rather than incentive directed positive controls, and limitations placed on controls.

Copies of the book are available in English for US\$20.00 from the **Publication Services, Box S-369, International Monetary Fund, Washington, D.C. 20431, USA.**

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Based on his work in Poland and Yugoslavia, Dr. Derek Abell has developed case studies of six industries undergoing restructuring. Dr. Abell, a professor at the International

Institute for Management Development in Lucerne, Switzerland, examines reform policies which have added unusual challenges to restructuring efforts and makes specific suggestions to managers about restructuring priorities.

Additionally, the book contains recommendations for policy makers and urges a closer examination of relationships between macro-economic reform policies and micro-economic efforts. Discussions about privatization, anti-monopoly actions,

removal of protections, and other economic reforms urge caution in order to strike a balance between promoting change and driving enterprises into bankruptcy.

Copies of *Turnaround in Eastern Europe: In-Depth Studies* are available by contacting the UNDP's Management Development Programme Unit in New York by telephone on 212-906-6883 or 212-906-6637. ■

# Inside INTOSAI

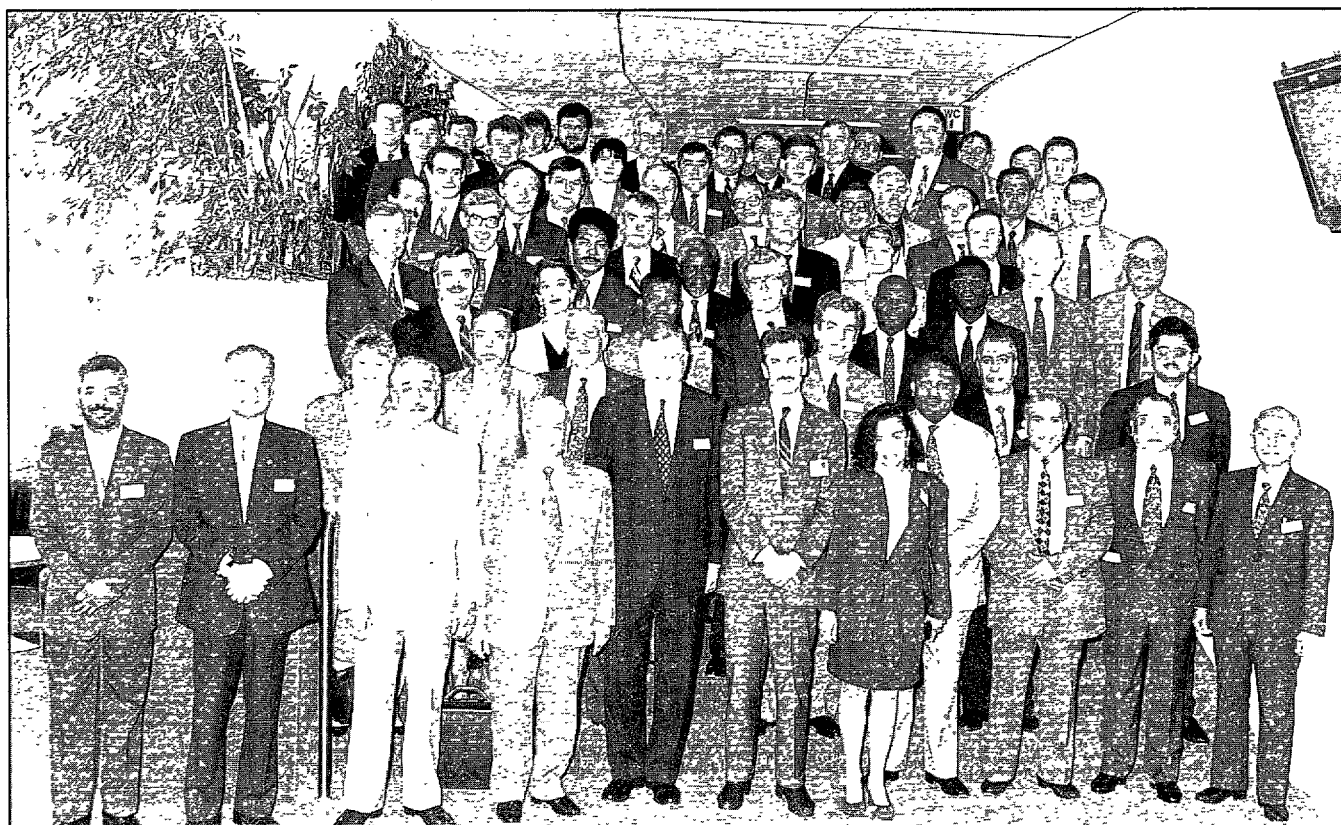
## Governing Board Holds 38th Meeting in Vienna

INTOSAI's Governing Board met in Vienna from May 10-11, 1993, to discuss a wide range of business and technical programs, and to follow up on decisions made by the INTOSAI membership at last year's XIV INCOSAI. Delegates from all seventeen member states—Austria, Australia, Barbados, Brazil, Cameroon, Canada, Egypt, Finland, Germany, Indonesia, Kenya, Mexico, Philippines, Romania, Saudi Arabia, Tonga, and the United States—engaged in productive discussions that moved the organization forward on a number of important issues.

Also joining the discussions were the chairs of INTOSAI's committees not already represented on the Board by elected members—France, Hungary, India, Netherlands and United Kingdom—who reported on their committees' progress. Other observers included representatives from Uruguay (the proposed host of the 1998 INCOSAI) and the United Nations.

In his chairman's report, Mr. Bowsher, USA, emphasized cooperation, communication and continuity (see editorial in this Journal, April 1993) as key elements in building on past successes and further strengthening INTOSAI. He especially noted the importance of inclusion as a critical foundation for future growth, and stressed the need to involve as many INTOSAI members in as many activities as possible. "The more participation we have," he said, "the stronger we will be and the more progress we will make."

The themes of cooperation, communication and continuity were evident in many reports and discussions during the meetings. In the area of cooperation, for example, Mr. Taylor, Australia, offered, in his capacity as chairman of the Auditing Standards Committee, to coordinate surveys and questionnaires planned by a number of INTOSAI committees. Continuity was well illustrated in the proposed plans for the 1995 INCOSAI presented by Mr. Abbas, Egypt (see editorial on page 1), and in the report by Mr. Zavelberg, Germany, in which he presented a standard approach for nominating and electing



The seventeen members of the Board are joined by observers for the official photograph during the 38th meeting of the Board at the Vienna International Center from May 10-11, 1993.

Board members under the new Statutes. And, the notion of inclusion and participation was demonstrated in the large number of SAIs who have volunteered to serve on INTOSAI's eight committees in response to the General Secretariat's request for such participation.

### 1995 Congress Plans Presented and Approved

Of special interest to Board members was the report by Mr. Abbas, President of Egypt's Central Auditing Organization,

on the plans for the 1995 International Congress of Supreme Audit Institutions (XV INCOSAI). The congress will be held in Cairo from September 25—October 2, 1995, and will be followed by a symposium from October 4-6. Mr. Abbas' presentation was supplemented by a videotape depicting the congress venue, the Cairo International Conference Center, and other points of interest in Cairo.

Egypt's plans for the 1995 event were described in their proposed Rules of Procedure, which were approved by the

## Committee Update

As INTOSAI's committees play an increasingly important function in the organization, and are a principal vehicle for promoting the concept of "life between congresses", the Journal provides the following information on the status of each of the eight committees.

**Audit** *Committee considering minor revisions to Standards based on comments at XIV INCOSAI.....survey to be conducted, in coordination with other committees, for bibliography.....Protocol for committee work approved for use with all committees.....contact: Australian National Audit Office.*

**Accounting** *Statement #3 sent to committee members for review and comment, final draft due this summer.....chairman recommended "associate network" of professional bodies to work in partnership with committee.....contact: Office of the Auditor General of Canada.*

**Internal Control** *Questionnaire drafted and circulated to committee members to collect bibliographic information.....questionnaire to be finalized and coordinated with Audit Standards and other committees.....contact: State Audit Office of Hungary.*

**Public Debt** *Chairman reported on May meeting in Lisbon of the committee.....survey results have been analyzed and report drafted.....three subcommittees to be established for further work.....contact: Contadoria Mayor de Hacienda of Mexico.*

**EDP** *Three subcommittees have been formed to study audit of EDP systems (Canada), using EDP in performance audits (Sweden), and administrative uses of EDP (UK).....subcommittees have developed workplans and work is proceeding.....contact: Office of the Comptroller and Auditor General of India.*

**Environmental Auditing** *Committee membership formed.....Terms of Reference approved by Board.....two year work plan developed, with first step being a survey of SAI.....first committee meeting scheduled for April 1994.....committee will lead Theme I effort at XV INCOSAI on environmental auditing.....contact: Court of Audit of the Netherlands.*

**Privatization** *Committee membership formed.....Terms of Reference approved by Board.....committee to coordinate work with privatization efforts of EUROSAI.....committee will lead effort at the symposium to be held in conjunction with XV INCOSAI on the audit of privatization.....contact: National Audit Office of the United Kingdom.*

**Program Evaluation** *Committee membership formed.....Terms of Reference approved by Board.....SAI survey to be conducted regarding program evaluation practices.....one goal of committee is to develop guidelines and methodologies if not standards for program evaluation.....contact: Court of Accounts of France.*



Board. The congress will feature two major themes as well as business and technical plenary sessions. The topic for Theme I is "Environmental Auditing", and will be chaired by the Netherlands in their role as chair of INTOSAI's newly created environmental auditing committee.

Theme II continues the practice established at the 1992 congress of integrating the work of INTOSAI's committees into the world congresses. At the XV INCOSAI, Theme II's subthemes will focus on six committees: auditing, accounting, internal control, EDP, program evaluation and public debt. The subthemes will be lead by the chairs of the respective committees, and will offer delegates opportunities to participate in the work of the committees and to help chart their future directions. And, in a further effort to make the committees an integral part of the congresses, the three-day symposium will devote attention to the work of INTOSAI's eighth committee on the audit of privatization.



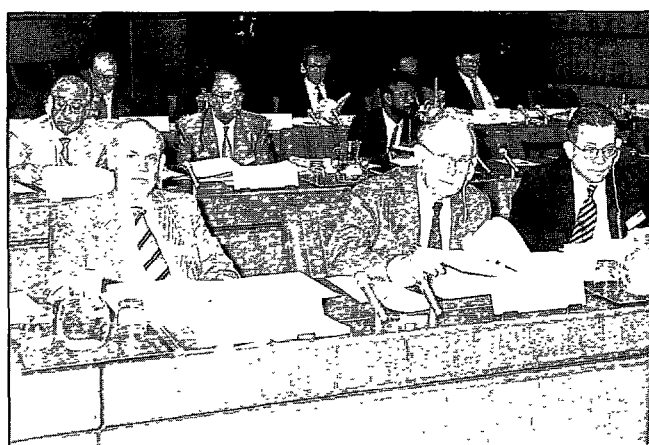
Board officers listen attentively to discussion on the many agenda items addressed at the May meeting. From left to right (front row): Mr. Weber, Austria; Secretary General Fiedler, Austria; Mr. Aliferis, U.S.A.; Chairman Bowsher, U.S.A; First Vice-chairman Abbas, Egypt; and, Mr. El-Azhary, Egypt. In the back row are Mr. Drach and Ms. Weeks, U.S.A.

Board members were unanimous in their support of Egypt's proposal, and expressed satisfaction at the progress already made in preparing for the 1995 meeting. The next Board meeting will be held in Cairo during the week of October 17, 1994, to give Board members the opportunity to preview the venue and to finalize program plans. This Journal will continue to provide information on plans for the congress in each issue leading up to October 1995.

### Secretary General Reports on Activities Since XIV INCOSAI

INTOSAI's annual report was presented by Secretary General Fiedler, and included the audited financial statements for 1992 as well as the work of the General Secretariat. Listed below are some of the accomplishments of the General Secretariat in the eight months following the XIV INCOSAI, and the relevant Board action as appropriate.

1. The General Secretariat conducted a survey of all SAIs regarding membership on INTOSAI's eight committees. Secretary General Fiedler reported an overwhelming response to the survey, the results of which have been passed on to committee chairs for action.
2. INTOSAI's new financial rules, adopted in draft by the Board at its 1992 meeting, are being implemented by the Secretariat on a test basis and will be fully implemented beginning in 1994.
3. The General Secretariat worked with Mexico in its role as President of OLACEFS to identify a potential host in that region for the 1995 INCOSAI. Uruguay has offered to host the XVI INCOSAI, and Mr. Smereldi, President of the Court of Accounts of Uruguay, attended the meeting to make the formal offer on behalf of his government and his office. The Board accepted the offer, which will be formally voted on in Cairo at the XV INCOSAI.
4. The General Secretariat worked with the chairs of INTOSAI's three newest committees, established as a result of recommendations at the XIV INCOSAI, and the terms of reference of the committees was presented and approved by the Board.
5. Five new countries had applied for INTOSAI membership, and the General Secretariat, having reviewed their applications and qualifications, recommended them for membership. The Board approved the admission of the United States of Micronesia, the Czech Republic, the Slovak Republic, Croatia, and Slovenia. On a related note, Mr. Fiedler reported the termination of the membership of the former Yugoslavia and Czechoslovakia.



Presenting his report documenting the nomination and election process for Board members under the new Statutes is Mr. Zavelberg, Germany (front row, center). Also pictured are other representatives from Germany, Saudi Arabia (second row), and France and the United Kingdom (third row).

In addition, Mr. Fiedler reported on various financial and budgetary issues, the 1994 UN/INTOSAI seminar, and gave an interim status report on the comparative study of SAIs being

conducted by the General Secretariat. In that regard, SAIs who have not yet submitted their questionnaire were invited to do so by mailing them to: General Secretariat of INTOSAI, Dampfschiffstrasse 2, A-1033 Vienna, Austria.

### Future of IDI Discussed

The INTOSAI Development Initiative (IDI) annual report for 1992 was presented to the Governing Board, and included information about IDI courses offered during that year and related funding issues. The photographs on this page show participants in three of IDI's courses offered in 1993 in Chile, Kenya and Thailand.

During 1992, IDI conducted eight workshops in conjunction with regional working groups. The workshops reached 186 participants from SAIs in 95 countries, on subjects ranging from financial audit management and supervision to computer auditing. In addition, the IDI secretariat conducted two INTOSAI-wide surveys regarding audit methodology and software, the results of which will be published in the International Directory of Audit Training Information in 1993. Published in 1992 and distributed at the Board meeting were the IDI Program Review Report and a special report documenting the results of the Manila seminar on public debt.

In addition to the annual report, the President of IDI presented a proposal regarding the future of IDI that was approved by the Board. Under this proposal, the IDI secretariat will work closely with INTOSAI's regional working groups' secretariats in supporting training conducted by the regions. At the same time, IDI will expand its role as a clearing-house for the exchange of information on training methodologies and techniques.

This proposal is a natural evolution of IDI's original strategic goal to strengthen regional working groups and individual SAIs through information exchange and training, and to further promote training through train-the-trainer programs.

For additional information, contact: IDI, c/o Office of the Auditor General, 240 Sparks Street, Ottawa, Ontario K1A0G6, Canada. ■



Participants in the OLACEFS/IDI workshop on operational auditing hosted by the SAI of Chile in Santiago from April 19-30, 1993.



Participants, instructors and hosts of the ASOSAI/IDI workshop on Financial Audit Management and Supervision, hosted by the SAI of Thailand in Bangkok from April 19-30, 1993.

